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July 17, 2007 **AZ CORP COMMISSION**  
**DOCKET CONTROL**

Arizona Corporation Commission  
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**JUL 17 2007**

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Commissioner Gary Pierce  
Parties to the Docket

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**Re: Possible ARS § 40-252 Proceeding for Decision No. 68608, Coronado Utilities and other Potential Steps to Address Concerns Regarding Rate Shock in San Manuel; Docket Nos. SW-04305A-05-0086 and SW-04305A-05-0087**

Dear Colleagues:

As you know, on May 2, I attended a town hall in San Manuel designed to hear the concerns of customers of the Coronado Utilities wastewater system regarding that Company's recent rate increase.<sup>1</sup>

More than 100 residents of San Manuel turned out for the session, voicing numerous concerns primarily related to the recent steep hike in their wastewater rates. The comments were wide ranging, and touched on other issues, including billing deficiencies, and what appears to be a deeply held conviction that BHP, the mining company that once owned and operated the wastewater system, should have been required to continue providing service to the community, or absent that solution, should have participated to a greater degree in an effort to hold the rate increase to a more manageable level. The town hall attendees were also critical of the Commission's decision to adopt a higher debt to equity structure than the Company had requested, which resulted in a higher rate increase.<sup>2</sup>

Among the many things I learned in San Manuel was just how deeply this community has been affected by the withdrawal of BHP. Jobs have dried up, many of those who remained in San Manuel have seen their incomes scaled back dramatically, and in the midst of this turmoil, the

<sup>1</sup> On March 23, 2006, the Commission approved a three-phase rate increase for Coronado Utilities, which had purchased the San Manuel wastewater system from BHP Copper. Currently, customers are paying \$37 a month under the Phase 2 rates. Phase 3 rates of \$46.5 a month will go into effect in June, 2008. For many years, BHP subsidized wastewater rates in San Manuel, charging customers \$4 per month for wastewater services. At one point, BHP provided wastewater service free of charge.

<sup>2</sup> The Company originally sought a capital structure of 13 percent equity and 87 percent debt, hoping to heavily avail itself of cheap municipal financing. Staff, believing this amount of debt would be too risky, requested a capital structure of 40 percent equity and 60 percent debt. The Order adopted by the Commission compromised at a capital structure of 27 percent equity and 73 percent debt, but required the Company to retain 75 percent of its net operating income until its equity level is 40 percent.

local wastewater provider has asked these distressed residents to pay more than nine times what they are accustomed to paying for sewer services every month. It was the most compelling town hall meeting I have attended during my tenure at the Commission.

In the now nearly four years since I began serving on the Commission, I have never asked my colleagues to consider reversing or re-opening a rate case. Together, we have made some difficult and painful decisions, and have done so in the knowledge that those decisions were necessary to improve infrastructure or correct problems or provide for the public safety, or a combination of all three of these things. I am a firm believer that the Commission should stand behind its decisions once made, and only agree to reconsider them under extraordinary circumstances.

This is the extraordinary circumstance.

I still believe that a rate increase for Coronado Utilities was necessary. The Company took over BHP's wastewater system and was in the position of having to replace entirely the treatment plant for the system in order to meet ADEQ requirements. However, after listening to the customers of Coronado Utilities, and after a thorough review of the record, I have concluded that the Commission should reconsider whether more could have been done to prevent the rate shock that has come to pass in San Manuel. Specifically, I believe we should conduct a proceeding pursuant to ARS § 40-252 in order to reconsider the Coronado Utilities rate case.<sup>3</sup>

Among the items I believe the Commission could consider in an ARS § 40-252 proceeding on the Coronado rate case are:

- Whether a different capital structure could be established allowing for a greater amount of debt financing, thereby lowering rates.
- Whether BHP should be deemed a public service corporation and required to participate in a fund that would help to defray the Company's financing costs.
- Whether the Company should be required to establish a low-income assistance fund to aid those who are having difficulty meeting the rate increase.
- Whether a fourth phase-in period could be established in the Company's rates in order to allow the customers of the Company more time to acclimate to the new, higher rates.
- Whether Coronado's billing system is adequate.

Should the Commission disagree regarding the need for an ARS § 40-252 proceeding, I would respectfully request that my Colleagues consider co-authoring a letter requesting BHP to participate in funding a low income assistance program at Coronado Utilities, and requesting additional information from Coronado Utilities regarding its billing practices. I also believe the San Manuel community would appreciate a follow-up town hall to continue the dialogue on these matters.

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<sup>3</sup> The Commission did take steps designed to try to avoid rate shock, including sending the matter back for an additional evidentiary hearing on the question of phased-in rates. The matter came back to the Commissioners with an additional phase in period.

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Thank you for your consideration of this matter. I welcome your thoughts on the proposed ARS § 40-252 proceeding, and look forward to discussing at an upcoming Staff Meeting the possibility of a second town hall meeting in San Manuel.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes", with a stylized flourish at the end.

Kris Mayes  
Commissioner

Cc: Ernest Johnson  
Brian McNeil  
Chris Kempley  
Heather Murphy  
Parties to the Docket